

11.09.00.00 - RENTAL INTERNAL CONTROLS

11.09.01.00 Policy

To protect the integrity of the Department's rental assets and to protect employees handling those assets from accusations of fraud, the following control activities shall be performed for each acquired property. These activities shall be fully documented in the rental file to facilitate audit and management review.

- Information on newly acquired property shall be entered in RWPS as soon as the information is available.
- Improved non-rentable properties shall be inspected at least once a month.
- The rental file shall contain justification for classifying any property as non-rentable.
- Unimproved non-rentable and occupied rentable properties shall be inspected at least once a year.
- Vacated rentable properties shall be inspected within 15 days of any vacancy and at least once a month thereafter. Vacated rentable properties are those having more than a remote chance of being rented for a reasonable time prior to construction.
- Rentable occupied properties shall be subject to a confirming process of tenant interviews and tenant letters.

The sections below contain descriptions of major steps in the internal control process. The Property Manager or designee shall perform many of the specified control activities (such as inspections and reviews). The designee must be a R/W Agent at the associate level or above but must not, however, be the Agent assigned rental management duties for the specific property/rental account.

11.09.02.00 Newly Acquired Property Closure Procedure

11.09.02.01 Office Review

Upon execution of a R/W Contract or recordation of an FOC, the Acquisition Agent (or Condemnation Agent for an FOC) shall send an MOS, RW 8-12, to Property Management with a copy of the R/W Contract or FOC as appropriate. The parcel should be assigned to the Agent responsible for the territory. The Agent shall review and be familiar with the documents and the appraisal involved.

11.09.02.02 Field Review

In the majority of cases where property is acquired under R/W Contract, there will be a period of time, usually 3 to 6 weeks, between receipt of these documents and close of escrow or recordation. Whenever possible, the Agent should contact the occupants prior to close of escrow to discuss the terms of rental occupancy. The Agent should read the R/W Contract carefully to determine any special conditions imposed that might affect, for example, the rental rate, term of occupancy, rental commencement date, or special disposition of acquired property.

Where property is acquired through an FOC, the Agent shall take immediate action to contact the occupants since rental commences on the day following recordation of the FOC.

11.09.03.00 **Vacated Rentable Property**

The Property Manager or designee shall inspect all vacated rentable properties within 15 days after vacancies occur or are discovered and not less than once a month thereafter. The inspections shall be documented on the vacancy report in the rental file. At least annually, one of the inspections shall be done concurrently with a maintenance inspection and documented as required under Section 11.10.06.00.

11.09.03.01 **Agent Activities**

When a tenant vacates, the Agent shall thoroughly inspect and secure the property as soon thereafter as possible. Prior arrangements shall be made to obtain the keys from the vacating tenant. Upon receipt of the keys, the Agent shall accomplish the following:

- Inspect the property and, when necessary, prepare a request to have trash removed, improvements boarded up, hazardous conditions abated, or necessary maintenance performed.
- Perform an inventory of all items purchased by the state and place appropriate documentation in the rental file.
- Determine whether the property should be boarded up to provide protection against vandalism and theft.
- Report any lost or stolen property in accordance with procedures in Section 11.03.09.00.
- Prepare the necessary accounting documents to close the tenant's file.

11.09.03.02 **Property Manager Activities**

The Property Manager or designee shall complete the first verification of vacancy status within 15 days after vacancy occurs and shall discuss each vacated rentable property not less than once a month with the Agent. Monthly field reviews shall be made to assure that the properties are still vacant. Every effort should be made to rent those properties. Documentation of office and field reviews shall be kept in district files for audit.

11.09.04.00 **Occupied Rentable Property**

Occupied rentable property shall be subject to a confirming process consisting of tenant interviews and letters to tenants to verify occupancy dates, rental rates, and deposits. The Division of Accounting and District Right of Way shall conduct this process on a sample basis shortly after tenancy commences.

Accounting shall send confirmation letters to newly inherited and re-rental tenants by using the sampling formula below:

- 100% for the first 10 new tenants each month.
- 20% of all new tenants over 10 each month.

Accounting will compare responses against rental records to confirm data and shall retain responses for audit purposes. Accounting will refer any unreconciled accounts and non-responses to the Property Manager for personal verification.

The Property Manager or designee will personally verify the data with each tenant when there is an unreconciled item or non-response and shall document verification in the rental file.

11.09.05.00 **Non-Rentable Property**

All non-rentable properties must be continuously accounted for and periodically inspected in the field to assure continued vacancy. New agents shall be advised of all non-rentable properties within their areas of responsibility.

Districts shall conduct field inspections of non-rentable properties to determine their condition and reevaluate their status and shall retain documentation of these inspections in the district files. Unimproved properties shall be inspected at least yearly, and improved properties shall be inspected at least monthly. These inspections may be combined with required maintenance inspections, which shall be documented as required under Section 11.10.06.00.

11.09.06.00 **Rental Accounting and Cash Handling**

11.09.06.01 **New Accounts**

At the time a new tenancy is created, one month's rent or the prorated amount due for the balance of the month shall be collected. A security deposit shall also be collected prior to commencement of tenancy in accordance with Section 11.07.12.00.

11.09.06.02 **Rental Payments**

As standard procedure, tenants shall submit rental payments directly to Accounting. Only in unforeseen and emergency situations (e.g., tenant being served a 3-day notice to pay or quit, or having a medical or financial condition that prevents the tenant from paying the rent according to the terms and conditions of the rental agreement) may an Agent accept payment from a tenant in accordance with the following procedures:

- **Check/Money Order** - Endorse and mail (by overnight courier if possible) to Accounting at the following address:
Department of Transportation
Attention Cashiering Deposits, MS #58
P. O. Box 168019
Sacramento, CA 95816-8019
- **Cash** - Convert the currency and coins to a money order or cashier's check. Endorse the money order or cashier's check and immediately forward to Accounting at the above address.

All checks/money orders received by the offices via incoming mail, dropped off at the counter by customer, or received by an Agent must be endorsed immediately upon receipt. The endorsement is stamped on the back of the check/money order as close to the top as possible, above the endorsement signature line.

The District Cashier should be used only as a last resort.

If the tenancy account is not set up in the RWPS, the check, money order, or cash must be deposited in Account 84 (Suspense Account). The tenancy account shall be created as soon as the information is available. Upon creating the tenancy account, any monies deposited in Account 84 must be transferred to the tenancy account immediately by completing an Adjustment Screen.

11.09.06.03 **Receipts**

As a good business practice, Cash Receipts (Form FA 285) shall be issued to record receipt of ① cash or currency or ② check or money order in all instances. District R/W employees must request cash receipt books from the District Cashier.

Refer to “Cash Handling Policy” memorandum dated August 18, 1995 (Exhibit 11-EX-2) and “Cash Receipt Book Procedures” dated December 1998 (Exhibit 11-EX-2A) for additional information on completing Cash Receipts, Form FA 285.

11.09.07.00 **Termination of Rental Accounts**

The district shall use the RWPS Adjustment Request Screen to terminate accounts, to authorize refunds of rent or security deposits, and to notify Accounting of amounts to be charged for damages.

11.09.08.00 **Rental Offsets**

Rental offsets are allowed for work done by tenants with prior written approval from the Property Manager (Senior) or Supervisor, depending on the offset amount. Work done under rental offset must be inspected by the Department to assure it has been completed in a satisfactory manner. See Section 11.10.16.00 for detailed information.

11.09.09.00 **Non-Offsetting Maintenance**

Contractors hired by the state perform non-offsetting maintenance. The Property Manager must approve receipts and bills for non-offsetting maintenance using the RWPS Maintenance Module.